Amendment #   - To require the Inspector General of the Federal Housing Finance Agency to investigate and report on the activities of Fannie Mae and Freddie Mac.

Nowhere in this bill is there any attempt to address the underlying causes of the current housing and economic crisis.

- Instead, with this bill, Congress is essentially declaring "fraud" to be the primary (if not sole) cause of the current crisis.

- Rather than pointing fingers and encouraging the criminal prosecution of others who may be responsible, Congress should examine other likely causes — including its own conduct — so mistakes can be corrected, and so limited resources can be concentrated in the most efficient efforts.

In particular, this Congress should review the collapse of Fannie Mae and Freddie Mac. These government-sponsored enterprises (GSEs) are undoubtedly some of the most significant actors in the mortgage industry.

- The unprecedented assumption by Fannie and Freddie of subprime and Alt-A (includes loans with little or no income or other documentation, as well as other deficiencies) mortgages must be further investigated.

- Between 2005-2007, shortly after the GSE accounting scandals of 2003 and 2004, Fannie and Freddie invested more than $1 trillion in subprime and Alt-A loans. These investments marked a significant change in the GSEs' behavior.

- Many questions remain unanswered about the subprime and Alt-A mortgages acquired by Fannie and Freddie, especially with respect to their volume and timing.

This amendment would help ensure that some of the most pertinent questions regarding the GSEs' role in the housing crisis — particularly with respect to subprime and Alt-A loans — are finally answered.

- It would require the Inspector General of the Federal Housing Finance Agency, the GSEs' regulator, to report back to Congress with answers to the following questions:

    - When did Fannie and Freddie begin to purchase large quantities of subprime and Alt-A mortgages, and in what years were those types of purchase the highest?
    - To what extent of these purchases induced by Congressional action or Executive Order?
    - To what extent were these purchases induced by the Department of Housing and Urban Development affordable housing regulations issued in 1995?
    - What actions by Fannie and Freddie contributed to the overvaluation of mortgage backed securities?

The amendment also looks to the possibility that congressional action contributed to the risky changes in the behavior of Fannie and Freddie.

- It has been reported that, "[b]etween the 2000 and 2008 election cycles, the GSEs and their employees contributed more than $14.6 million to the campaign funds of dozens of senators and representatives, most of them on committees that were important to preserving the GSEs' privileges."[1]

- It has also been reported that, "[b]etween 1998 and 2008, Fannie spent $79.5 million and Freddie spent $94.9 million on lobbying congress, making them the twentieth and thirteenth biggest spenders, respectively, on lobbying fees during that period."[2]

- This amendment would help ensure that some of the toughest questions regarding the GSEs' special relationship with Congress — and whether any conflict created by that relationship — influenced the GSEs' behavior, especially to the taxpayers' detriment. It requires the Inspector General to study:

[1] Peter J. Wallison and Charles W. Calomiris , "The Last Trillion-Dollar Commitment: The Destruction of Fannie Mae and Freddie Mac," AEI's Financial Services Outlook, Sept. 2008, at pg. 3.
[2] Id.

- What political contributions were made by Fannie and Freddie on behalf of a political candidate or to a separate segregated legal fund?
- What lobbying expenditures were made by Fannie and Freddie between 1990 and 2008?
- What contributions were made by Fannie and Freddie Mac to any lobbying organization?

This amendment represents a commonsense step toward determining which factors contributed significantly to the current crisis.

In looking at other entities, such as Fannie Mae and Freddie Mac, Congress must also look to its own conduct and influence to determine what corrective and preventative actions can be taken.

ADDITIONAL CONSIDERATIONS

Congress must recognize that its own intrusive intervention policies toward the housing market are the primary cause for this crisis: The expansion in risky mortgages to under-qualified borrowers was encouraged by the federal government. The rapid increase in sub-prime lending followed Congress's strengthening of the Community Reinvestment Act, the Federal Housing Administration's loosening of down-payment standards, and the Department of Housing and Urban Development's pressuring lenders to extend mortgages to borrowers who previously would not have qualified.

Meanwhile, Freddie Mac and Fannie Mae grew to own or guarantee about half of the United States' $12 trillion mortgage market. Congressional leaders have pointedly refused to moderate the moral hazard problem of implicit guarantees, and instead push them to promote "affordable housing" through expanded purchases of sub-prime loans to low-income applicants. A large component of these refusals is the fact that the same Congressional leaders have received lavish sums of money in the form of campaign contributions.

The Obama Administration and Congress have offered very little in the way of a real plan to address the sweeping housing crisis. It is not enough to just diagnose the symptoms – we must reform and modernize our regulatory system to increase transparency and prevent this disease from spreading and recurring.

Peddling the dream of home-ownership through Fannie and Freddie is a primary reason why the housing market imploded this past year. Fannie and Freddie, who are for-profit companies, have time and again abused the trust of the American taxpayer. We have known about the incestuous relationship between companies like Fannie Mae/Freddie Mac and members of Congress for years. However, Congress has remained idle to this matter until a crisis situation has finally arrived. My top priority in the Senate is to protect the American taxpayer, not the shareholders of big companies, and certainly not those members of Congress who stand to gain at the expense of the American taxpayer. We must address these underlying systematic problems and reform these institutions so that we do not find ourselves in this position 10 or 15 years down the road.

As much as members of Congress want to find scapegoats, the root of this problem is political greed. Members of Congress from both parties wanted short-term political credit for promoting home ownership even though they were putting our entire economy at risk by encouraging people to buy homes they couldn't afford. Then, instead of conducting thorough oversight and correcting obvious problems with unstable entities like Fannie Mae and Freddie Mac, members of Congress chose to ignore the problem and distract themselves with unprecedented amounts of pork-barrel spending.

Congressional attempts to continue intrude into the housing market will only serve to prolong and ultimately exacerbate the pain by further distorting and delaying the realities of the markets. The result would likely be a quick halt to the ongoing private corrective actions that seek to increase liquidity and return the markets to their accurate price level. The sole role of government in this process is to ensure that markets are functioning, that full and accurate information is available, and that contracts are honored. Mortgage brokers, real estate agents and other lenders should be transparent with their lending conditions and must be accountable for full disclosure to borrowers. Lenders must then take responsibility for their loans, including disclosure and the possibility of default, and borrowers must be responsible for the agreement into which they enter.

In many areas of the country housing prices rose too fast for too long and were not indicative of the true value they represented. This was due to the fact that mortgages were underwritten for borrowers who often were not credit worthy, often on terms even credit-worthy borrowers could not afford for long, and for properties that were often overvalued. Thus, the economic healing process must be one of price discovery. Housing and credit markets need to discover the new, proper price levels for their troubled assets. Once these proper levels are found, this will enable both lenders and borrowers to responsibly enter into contracts that can be kept as it would reflect their true position within the market as a whole.